

11 October 1985

MEMORANDUM FOR: Director of Personnel

VIA: Inspector General

25X1 FROM:   
Chief, Audit Staff

SUBJECT: Report of Audit, Government Employees  
Health Association, Inc., 1 January 1984 -  
31 December 1984

1. Subject report is attached for your information.  
Please advise me of the action taken on the recommendations .

2. We appreciate the cooperation and assistance provided  
by your staff during the audit.

*for*



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Attachment:  
As stated

Distribution:  
Orig. - D/OP  
1 - C/Board of Directors  
1 - D/OF  
1 - O/Compt/BMG

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WARNING NOTICE  
INTELLIGENCE SOURCES  
OR METHODS INVOLVED

Approved For Release 2005/08/03 : CIA-RDP86-00964R000200070002-7

C O N F I D E N T I A L

REPORT OF AUDIT  
Government Employees Health Association, Inc.

For the Period  
1 January 1984 - 31 December 1984

SUMMARY

1. Internal controls and procedures governing the custody and use of Government Employees Health Association, Inc. (GEHA) assets were generally effective and in accordance with applicable requirements. This report contains recommendations concerning compensating employees for donated overtime, formalizing investment policy, improving cashier procedures, preparing periodic financial statements, reconciling certain general ledger accounts with their subsidiaries, and obtaining a qualified accountant. Other administrative problems, including electronic fund transfers of Agency payments for health insurance and missing documentation for a \$36,000 death claim payment, were discussed with responsible officials who agreed to take appropriate action.

SCOPE

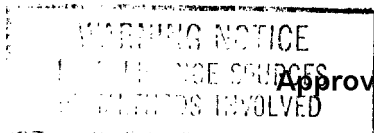
2. The audit included an examination of the GEHA statement of financial position as of 31 December 1984 and 1983 and the related statements of changes in reserve fund balances and changes in financial position for 1984. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and other auditing procedures, including a review of claim settlement procedures, as we considered necessary under the circumstances. We did not review the adequacy of the reserve account balances; however, both the Associated Benefit Plan and URLIC reserve balances were reviewed for adequacy by outside consultants during 1984.

3. In our opinion, the accompanying financial statements, Exhibits A, B and C, present fairly the financial position of GEHA at 31 December 1984 and 1983 and the results of its operations for the year ended 31 December 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

GENERAL

4. GEHA is a tax-exempt organization incorporated in the District of Columbia to administer employee insurance programs

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in accordance with Agency operational and security requirements. An elected Board of Directors prescribes GEHA operating policies. The daily business is conducted by the Insurance Operations Division, Office of Personnel. GEHA reimburses the Agency for the services of [redacted] employees in the Insurance Operations Division.

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5. GEHA maintains 25,128 insurance accounts for active and retired employees. The following plans are in effect:

PLANS

ACCOUNTS

Life Insurance:

United Benefit Life Insurance Company  
Active  
Retired

Worldwide Assurance for Employees  
of Public Agencies

Health Insurance:

Association Benefit Plan  
Active  
Retired

Contract Hospitalization

Specified Diseases

Disability Insurance:

Income Replacement

Accidental Death and Dismemberment  
Insurance:

Group Accident Plan

Travel Insurance:

Air Flight

6. The Association Benefit Plan received premiums of \$29.8 million, paid out benefits of \$21.0 million, and incurred net operating expenses of \$1.3 million for a net underwriting gain of \$7.5 million in 1984.

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## DETAILED COMMENTS

### Overtime

7. During 1984 several GEHA personnel worked overtime hours for which they did not receive compensation. The Fair Labor Standards Act (FLSA) and Agency regulations require that nonexempt employees (those covered by the overtime provision of FLSA) must be paid for all worktime in excess of the 40 hour workweek, including the worktime which the employer "suffers or permits" to be performed. A tabulation of donated time was included in weekly reports to GEHA management for a ten week period in late 1984. During that time 95 hours of overtime, which included approximately 65 hours for nonexempt personnel, was donated by GEHA staff. We did not determine whether these were the only hours donated by GEHA personnel. GEHA has discontinued the practice of accepting donated overtime.

Recommendation #1: Compensate the nonexempt employees for their donated overtime hours.

### Investment Policy

8. GEHA and Basic Economic Analysis (BEA), an investment management firm, have not contractually agreed to the revised investment objectives and instructions for BEA as approved by the GEHA Board of Directors in October 1982. In 1981, GEHA appointed an investment committee to review investment objectives and policy. This committee expanded upon the investment objectives and instructions outlined to BEA in the original 1976 agreement. Although the GEHA Board of Directors has approved the new BEA guidelines, the two parties have not formalized the changes. During the March 1985 Board meeting the BEA agreement was again discussed and a new contract was prepared and sent to the Office of General Counsel for their review.

Recommendation #2 (for Board of Directors action):  
Formalize an agreement with BEA which states the Board's current investment objectives and strategies.

### Cashier Procedures

9. Internal controls and procedures pertaining to the recording of cash received for premiums need to be strengthened. Currently, the insurance cashiers issue a prenumbered receipt to each policyholder paying premiums by cash or check. The receipt is used to complete the policy application and to balance the daily cash activity but the receipt is then destroyed. All prenumbered receipts should be accounted for by

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number to verify that all funds received are recorded in GEHA's records; they should then be attached to the financial voucher for documentation and audit trail purposes.

Recommendation #3: Retain a copy of prenumbered cash receipts issued to policyholders; attach receipts to cash vouchers.

10. The Headquarters cashiers who receive the cash premiums also record the payments received in the computerized policy subsidiary records and have the capability to edit the subsidiary records. Segregation of duties is an important internal control over assets as it tends to prevent errors and possible malfeasance by providing independent checks.

Recommendation #4: Segregate the duties of receiving and recording cash.

Recommendation #5: Limit the cashiers' edit capabilities

#### Financial Records and Personnel

11. The prior audit report contained a recommendation to prepare annual financial statements. Although GEHA responded that financial statements would be prepared for 1984, this was not done. As stated in our last report, generally accepted accounting principles require that financial statements be prepared to show how resources have been used to carry out stated objectives. The statements should be available for use by the GEHA Board of Directors and for review by GEHA membership.

Recommendation #6: Prepare annual financial statements for Board and membership information.

12. The general ledger accounts recording premiums received for contract employees hospitalization insurance (CHI) have not been reconciled with supporting records. The prior two audit reports contained recommendations that these accounts be reconciled at least quarterly; however, the last complete reconciliations were those prepared by the auditors as of 30 June 1983. During 1984 the Audit Staff assisted GEHA personnel in the beginning stages of these reconciliations, but the reconciliations were never completed. Without an automated accounting system these reconciliations involve tedious manual computations of sub-account balances, but as stated in a previous audit report, periodic reconciliations help identify and resolve differences in a timely fashion.

Recommendation #7: Reconcile the CHI premium general ledger accounts at least quarterly.

13. The magnitude and complexity of GEHA financial operations requires a trained accountant to maintain the accounting and financial records. During 1984 GEHA wrote 28,500 checks on 11 bank accounts in settlement of the more than 38,000 claims processed during the year. In December 1983 the senior accountant retired and her replacement recently resigned for personal reasons leaving GEHA devoid of any technical accounting skills. GEHA management has requested the Office of Finance to assign a finance officer to GEHA. We want to emphasize the importance of having a qualified accountant in that assignment.

Recommendation #8: Obtain a qualified accountant at the earliest possible date.

Government Employees Health Association, Inc.  
Statement of Financial Position  
31 December 1984 and 1983

ASSETS

	<u>1984</u>	<u>1983</u>
Cash	\$ 751,541	\$ 489,923
Investments (Note 1)	6,562,247	6,036,591
Claims receivable	37,805	130,359
Interest receivable	88,463	
Contingent assets:		
Funds withheld by underwriter for specified policyholders	99,000	99,000
Less: Reserves	(99,000)	(99,000)
Equipment	2,890	2,890
Less: Depreciation	(2,890)	(2,312)
Total assets	<u>\$7,440,056</u>	<u>\$6,657,451</u>

LIABILITIES AND RESERVES

Accounts payable	\$ 35,551	\$ 27,795
Prepaid premiums	124,289	197,783
Accrued salaries	66,462	11,774
Accrued dependent premiums	15,890	16,537
Total liabilities	\$ 242,192	\$ 253,889
Reserves (Exhibit B)	<u>7,197,864</u>	<u>6,403,562</u>
Total liabilities and reserves	<u>\$7,440,056</u>	<u>\$6,657,451</u>

Note 1: Investments are recorded at cost; market value at 31 December 1984 was \$6,808,800 and at 31 December 1983 was \$6,214,000.

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Exhibit B

Government Employees Health Association, Inc.  
Statement of Changes in Reserve Fund Balances  
For the Year Ended 31 December 1984

	Total	UBLIC Investment in Common Stock	UBLIC General	Association Benefit Plan	Air Flight Plan	Contract Hospital- ization	General Fund
Balance, 1 January 1984	<u>\$6,403,562</u>	<u>\$915,207</u>	<u>\$4,826,557</u>	<u>\$474,726</u>	<u>\$29,409</u>	<u>\$90,151</u>	<u>\$67,512</u>
Increases:							
Premiums withheld from or returned by underwriter	762,480			741,889		20,591	
Investment income	599,045	168,202	403,933	10,184	2,475	5,622	8,629
Gain on sale of investments	280,506	107,319	166,727		1,022	3,117	2,321
Miscellaneous	<u>1,577</u>				<u>656</u>		<u>921</u>
Total increases	<u>1,643,608</u>	<u>275,521</u>	<u>570,660</u>	<u>752,073</u>	<u>4,153</u>	<u>29,330</u>	<u>11,871</u>
Decreases:							
Salaries	655,525		17,621	618,969	3,787	15,148	
Retiree free coverage	77,188		77,188				
Premiums for UBLIC dependent coverage	38,631		38,631				
Investment fees and expenses	69,107	22,306	45,056		276	842	627
Miscellaneous	<u>8,855</u>		<u>1,045</u>	<u>5,591</u>			<u>2,219</u>
Total decreases	<u>849,306</u>	<u>22,306</u>	<u>179,541</u>	<u>624,560</u>	<u>4,063</u>	<u>15,990</u>	<u>2,846</u>
Balance, 31 December 1984	<u>\$7,197,864</u>	<u>\$1,168,422</u>	<u>\$5,217,676</u>	<u>\$602,239</u>	<u>\$29,499</u>	<u>\$103,491</u>	<u>\$76,537</u>

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Government Employees Health Association, Inc.  
Statement of Changes in Financial Position  
For the Year Ended 31 December 1984

Resources provided by:

Claims reimbursed by underwriters:	
Hospitalization	\$11,239,612
Death	781,988
Sale of investments	3,299,789
*Premiums from policyholders	1,250,364
Premiums from underwriters	762,480
Investment income	510,582
Increase in accounts payable	61,797
Miscellaneous income	<u>1,577</u>
Total resources provided	<u>\$17,908,189</u>

Resources applied to:

Claims paid to policyholders:	
Hospitalization	\$11,147,058
Death	781,988
Purchase of investments	3,544,939
*Premiums paid to underwriters	1,323,858
Salaries paid	655,525
URLIC dependent and retiree premiums	115,819
Investment fees and expenses	69,107
Increase cash	261,618
Miscellaneous expenses (less depreciation)	<u>8,277</u>
Total resources applied	<u>\$17,908,189</u>

\* Does not include premiums of \$17 million for Association Benefit Plan which are withheld by Compensation Division and passed through GEHA to Office of Personnel Management.

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PETTY CASH

8/15/85 \$10.00  
8/29/85 - 7.09 labels purchased  
2.91 balance left

10/4 - purple labels - \$9.58 OK

reimbursement received (memo a  
attached.

13 DEC 85 I certify I returned ~~\$2.91~~ \$2.91 to GEHA to liquidate my petty  
cash fund, as recommended by the Audit Staff, and directed by DC/IOD.



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13 DEC 85 ~~XXXXXXXXXXXX~~ I certify I received \$2.91 ~~for~~ from Sylvia.



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EXPLANATION SHEET FOR RETURNED MEDICAL BILLS

1. \_\_\_\_\_ Immunization shots are not covered (e.g., polio, flu, DPT, etc.) since they are preventative measures.
2. \_\_\_\_\_ Drugs which can be purchased without a doctor's written prescription are not covered by the Plan.
3. \_\_\_\_\_ We are unable to identify the drug, \_\_\_\_\_. Please verify the spelling or obtain a statement from the pharmacist stating that the drug can only be purchased with a doctor's written prescription.
4. \_\_\_\_\_ In order to process your claim, the Plan requires the nature of illness or injury (complaint) for which charges were incurred.
5. \_\_\_\_\_ Bills were incurred prior to the effective date of your coverage.
6. \_\_\_\_\_ Not covered by the Plan. Please refer to page \_\_\_\_\_ of the Brochure for a detailed explanation and the Remarks section below.
7. \_\_\_\_\_ Returned per our telephone conversation of \_\_\_\_\_.
8. \_\_\_\_\_ Anesthetist's bill is being held until the surgeon's bill is received. Reimbursement is determined by the type of surgery performed.
9. \_\_\_\_\_ Prenatal visits are not paid until after delivery and are included in the delivery charge.
10. \_\_\_\_\_ Only initial infertility testing is covered by the Plan.
11. \_\_\_\_\_ Eyeglasses (including contact lenses) and examinations for them are not covered. In order to consider the attached bill(s), the Plan requires a statement from the doctor indicating that the examination was not for the fitting of glasses and including the condition for which the patient was being treated.
12. \_\_\_\_\_ If the eye exam was for a covered condition, the Plan requires a doctor's statement indicating whether a refraction was performed. If a refraction was performed, the Plan requires a breakdown of the charges for the exam and the refraction.
13. \_\_\_\_\_ The Plan limits services of a podiatrist on the feet to the following:  
a. Repair of lacerations and wounds produced by thermal or chemical agents. b. Reduction of fractures or complete dislocation. c. Surgery requiring incision through the true skin, and related office visits, x-rays and laboratory tests.
14. \_\_\_\_\_ See Remarks.

REMARKS \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

7 OCT 85

I certify that the follwoing funds were spent for supplies for  
the Association Benefit Plan:

4 OCT 85 - three packages of purple labels \$9.58

~~TO [REDACTED]~~

~~[REDACTED]~~

\$9.58

I certify I received-----in funds.

[Empty rectangular box]

STAT